Lornex

Annual Report 1983

The Corporation

The Corporation produces copper and molybdenum in concentrates and silver as a by-product from its open pit mine and mill located in the Highland Valley area of British Columbia. It has a 39% joint venture interest in the Bullmoose Project metallurgical coal property in northeastern British Columbia. Exploration is conducted primarily in western Canada.

The Annual General Meeting
10:00 a.m., Thursday, April 19, 1984, in the Shuswap Room, The Four Seasons Hotel, 791 West Georgia Street, Vancouver, B.C.

Cover: After blasting in the Lornex open pit, large-scale shovels load broken ore into haulage trucks for transportation to the mill for treatment.

Directors' Report to the Shareholders

George R. Albino
Chairman and President

Net earnings for the year were $2.7 million ($0.32 per common share) compared to a net loss of $11.1 million ($1.35 per common share) in 1982. No dividends were paid in 1983 or in 1982.

Earnings and Financial Position

Net revenue from mine production was $148.5 million in 1983 compared to $126.9 million in the previous year. Earnings before taxes were $6.3 million compared to a loss of $19.7 million in 1982. The improvement in earnings before taxes was largely due to the increase in net revenue resulting primarily from higher prices for copper and silver and increased production of molybdenum, partly offset by lower copper grades. However, declining copper prices over the last half of 1983 resulted in a net loss in that period.

The Canadian dollar gross revenue price realized per payable pound of copper averaged $0.90 in 1983 compared to $0.81 in 1982 and for molybdenum averaged $4.18 per pound in 1983 compared to $4.28 in the previous year. Silver averaged $14.10 per ounce in 1983 and $8.74 in 1982. Comparable 1981 average revenue prices were $0.94 for copper, $6.71 for molybdenum and $10.60 for silver.

Working capital increased from $11.0 million to $36.7 million. Net capital expenditures in 1983 were $72.7 million compared to $41.6 million in the previous year. At year end, the Bullmoose Project bank loans totalled $106.3 million, including $65.0 million borrowed under a limited recourse loan agreement.

Operations

Comparative operating data are as follows:

	1983	1982
Tons of ore milled (000's)	**31,710**	30,692
Average tons milled per operating day	**86,877**	84,086
Average mill head grade (%)		
— Copper	**0.337**	0.364
— Molybdenum	**0.016**	0.015
Average mill recovery (%)		
— Copper	**88.2**	90.1
— Molybdenum	**73.5**	70.1
Payable metal in concentrate produced (000's)		
— Copper (pounds)	**181,682**	194,582
— Molybdenum (pounds)	**7,506**	6,347
— Silver (ounces)	**710**	739
Payable metal in concentrate delivered (000's)		
— Copper (pounds)	**186,031**	219,074
— Molybdenum (pounds)	**6,103**	4,650

A high mill throughput rate was maintained during the year by improving production methods while maintaining an acceptable waste to ore ratio. The average concentrator throughput level of 86,877 tons of ore per day represents an improvement of 3% over 1982. In the month of February a record average of 92,021 tons of ore per day were milled.

The average operating cost per ton of ore milled decreased to $3.51 in 1983 from $3.63

in 1982. Measures instituted in 1982 to reduce costs, improve labour utilization and increase productivity were continued and expanded in 1983. The mining plan adopted in 1982 under which some stripping of waste material is being postponed to future years was followed during the year and has resulted in lower current operating costs.

A new copper concentrate regrind circuit came into production in December 1983. The higher copper grade in concentrates produced from this circuit will result in net savings in freight and smelter treatment charges per pound of copper produced.

The average number of employees was 923 compared to 1,006 in 1982. At year end, the work force totalled 941.

The new safety program implemented in 1982 has been successful. The efforts of all union and staff personnel have reduced the accident frequency by 45% compared to the previous year.

Ore Reserves

Proven ore reserves at December 31, 1983 are estimated to be 416 million tons with an average head grade of 0.374% copper and 0.013% molybdenum. During the year some diamond drilling was undertaken to assess the extent of deep ore beneath the confirmed lower limits.

Marketing

Slightly more than one-half of the annual production of copper concentrates has been sold to a group of Japanese companies under a contract for delivery of a fixed quantity of concentrates per year until the end of 1989.

Construction of the Bullmoose coal mine, located in northeast British Columbia, was virtually completed on time and under budget in December. Coal is being shipped on a regular basis.

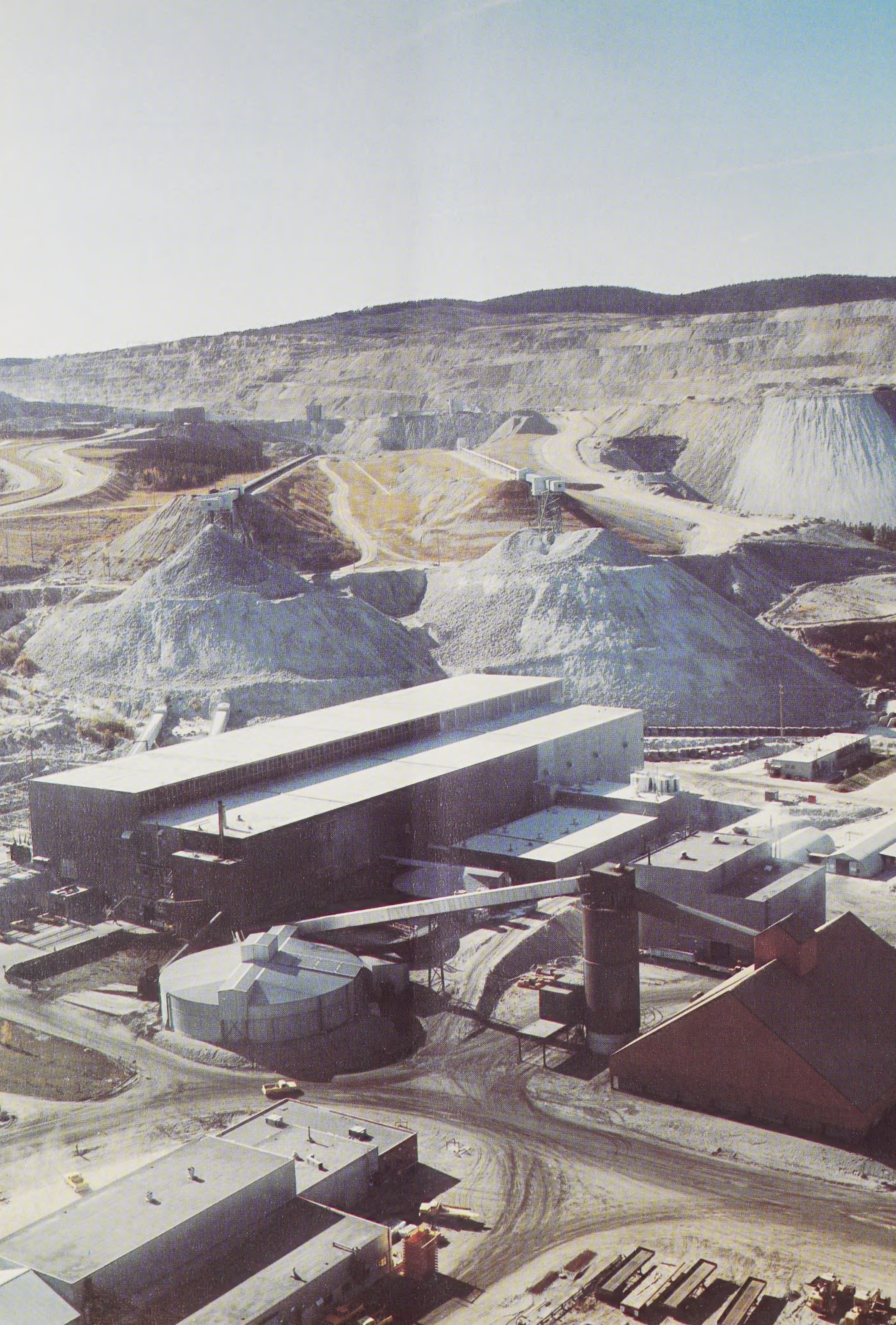
A second sales contract provides for the delivery of a fixed quantity of copper concentrates per year until the end of 1985. Production in excess of deliveries under these contracts during 1984 has been sold under two separate short-term contracts with major trading companies.

Portions of the molybdenum in concentrates that will be produced in 1984 have been contracted for by two European companies on pricing formulae related to published dealer prices for molybdic oxide. A larger portion of the 1984 molybdenum production will be converted to molybdic oxide under toll conversion agreements and the product sold through a sales agent. Any production in excess of deliveries under these contracts will be available for sale.

Bullmoose Project

Under a 1982 agreement between Lornex and Teck Corporation a 39% joint venture interest is held by Lornex in the Bullmoose metallurgical coal property, part of the Northeast Coal Development project in British Columbia. The joint venture is managed by Teck, which holds a 51% interest. A Japanese company, Nissho Iwai Coal Development (Canada) Ltd., holds the remaining 10% interest. The Northeast Coal Development project is a complex and major undertaking, involving the construction of two major coal mines and associated infrastructure, new railway lines and roads, a townsite and a port for the export of coal to Japanese customers.

Construction of the Bullmoose facilities was virtually completed in December 1983, on time and under budget, a commendable performance. In the last quarter of 1983 coal was processed through the Bullmoose plant and by the end of December coal was being shipped on a regular basis from the mine to the coal loading port at Ridley Island near Prince Rupert. The first shipment to customers in Japan from that facility was made on January 10, 1984. It is estimated that Lornex's total investment in the project will be $120 million, of which $111.1 million had been expended at December 31, 1983.



Exploration

Exploration expenditures by Lornex during the year were $435,000, with more than 100 properties being considered. Work was carried out on five mineral exploration projects in British Columbia; further work is planned on two of these projects. Precious metals and massive deposits containing zinc, lead, copper, gold and silver continue to be main areas of interest but tungsten, tin and platinum group metals are also being considered. Efforts will continue to acquire projects, in western Canada and the United States, which are at an advanced exploration or development stage.

Outlook

Earnings of Lornex are primarily dependent upon the price of copper, the principal metal which it produces, strict control of costs and a high level of productivity. Recently the price of copper in real terms has been at its lowest level since the 1930's.

All costs will continue to be rigorously controlled. Studies were begun in 1983 to determine the impact of new technology upon operating costs in the future. By these actions Lornex intends to achieve further operating efficiencies and productivity so that, when world economic conditions improve, it will be well placed to realize maximum benefits from increases in the prices of its products.

Appreciation

The Directors wish to express their appreciation to all of the people who contributed to the excellent operating performance for the year and for their dedication during trying times.

On behalf of the Board of Directors

George R Albino

George R. Albino,
Chairman and President

Vancouver, B.C.
February 22, 1984

Dramatic view of the Lornex mill, coarse ore stockpiles and section of the open pit. An additional feature of the mill is a copper concentrate regrind circuit that came into production towards year-end.

The principal accounting policies followed by Lornex Mining Corporation Ltd. are in accordance with generally accepted accounting practice in the Canadian mining industry and are summarized hereunder.

Investment in Joint Venture
The financial statements include the Corporation's proportionate 39% interest in the assets and liabilities of the Bullmoose Project, an unincorporated joint venture; the Project was under construction at December 31, 1983.

Conversion of United States Currency
The accounts in United States currency are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year-end exchange rates; all other assets at rates in effect at time of transactions, and revenues and expenses at actual rates prevailing during the year.

Revenue from Mine Production and Valuation of Inventories and Concentrates Awaiting Shipment
Production of concentrates is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1983 inventories of 13.0 million payable pounds of copper and 4.3 million payable pounds of molybdenum contained in concentrates awaiting shipment were valued as described above; in addition, shipments containing 16.9 million payable pounds of copper for which the final price had not been established were also priced in this manner and the values included in receivables.

Coal inventories are valued at estimated realizable value.

Mine Supplies
Mine supplies are valued at average cost.

Depreciation and Amortization
Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

Capitalization of Interest
The Corporation follows the policy of capitalizing net interest costs during construction or development only on those projects for which funds have been borrowed; this would normally apply only to such major new projects from beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on borrowed funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized. Such net interest costs are capitalized because it is considered that they would not have been incurred if the project had not been undertaken and therefore are properly part of the capital cost of the total project.

Mineral Exploration and Development Costs
Exploration costs are written off as incurred. Expenditures on development projects are capitalized while the projects are considered to be of value to the Corporation.

Income and Mineral Resource Taxes
The Corporation provides for deferred income and mineral resource taxes on all significant timing differences which represent the tax effects of revenue and expense items reported for tax purposes in periods different than for accounting purposes. Investment tax credits claimed for federal income tax purposes are treated as a reduction of the current year's income tax expense.

Statement of Earnings

(Thousands of dollars)

Lornex Mining Corporation Ltd.
(Incorporated under
the laws of British Columbia)

Year Ended December 31	**1983**	1982
Revenue:		
Net revenue from mine production	**$148,506**	$126,893
Investment and other income	**1,223**	—
	149,729	126,893
Expenses:		
Operating costs	**111,391**	111,386
Administrative and general	**10,590**	11,575
Amortization and depreciation	**20,533**	20,816
Exploration	**435**	714
Interest expense	**502**	2,087
	143,451	146,578
Earnings (loss) before taxes	**6,278**	(19,685)
Income and mineral resource taxes		
Current	**2,700**	(2,170)
Deferred	**895**	(6,375)
	3,595	(8,545)
Net earnings (loss) for the year	**$ 2,683**	$ (11,140)
Net earnings (loss) per share	**$ 0.32**	$ (1.35)

Statement of Retained Earnings

(Thousands of dollars)

Year Ended December 31	**1983**	1982
Balance, beginning of year	**$159,014**	$170,154
Add (deduct) net earnings (loss) for the year	**2,683**	(11,140)
Balance, end of year	**$161,697**	$159,014

Balance Sheet

(Thousands of dollars)

December 31	1983	1982
Assets		
Current:		
Cash and short term deposits	$ 22,318	$ —
Receivables and prepaid expenses	5,373	19,757
Inventories and concentrates awaiting shipment	29,898	19,209
Mine supplies	16,268	17,221
	73,857	56,187
Plant and equipment (note 3)	200,420	214,872
Mining properties and preproduction expenditures (note 4)	37,606	40,124
Construction in progress, at cost	103,902	34,805
Deposits and long term receivables, at cost	4,171	5,123
	$419,956	$351,111
Liabilities		
Current:		
Bank loans and overdrafts	$ —	$ 18,486
Accounts payable and accrued liabilities	28,703	21,151
Income and mineral resource taxes	8,405	5,593
	37,108	45,230
Bullmoose Project bank loans (note 5)	106,302	34,800
Housing loans (interest 8¾% to 13%)	2,848	961
Deferred income and mineral resource taxes	100,415	99,520
	246,673	180,511
Shareholders' Equity		
Capital Stock (note 6):		
Authorized —		
9,500,000 common shares, par value of $1 each		
4,500,000 Class A shares, par value of $1 each		
Issued —		
8,268,762 common shares	8,269	8,269
Premium less discount on shares issued for cash	3,317	3,317
Retained earnings	161,697	159,014
	173,283	170,600
	$419,956	$351,111

Approved on behalf of the Board:
D. S. R. Leighton, Director
G. R. Albino, Director

Statement of Changes in Financial Position

(Thousands of dollars)

Year Ended December 31	1983	1982
Source of Funds:		
Operations		
Net earnings (loss) for the year	$ 2,683	$ (11,140)
Add charges against earnings not involving current outlay of funds:		
Amortization and depreciation	20,533	20,816
Deferred income and mineral resource taxes	895	(6,375)
Total funds from operations	24,111	3,301
Bullmoose Project bank loans	71,502	34,800
Housing mortgages	1,887	—
Reduction in deposits and long term receivables (net)	952	23
	98,452	38,124
Disposition of Funds:		
Expenditures on construction in progress and plant and equipment (net)	72,660	41,579
Increase (decrease) in Working Capital	25,792	(3,455)
Working Capital, beginning of year	10,957	14,412
Working Capital, end of year	$ 36,749	$ 10,957

Auditors' Report to the Shareholders

We have examined the balance sheet of Lornex Mining Corporation Ltd. as at December 31, 1983, and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for the investment in the Bullmoose Project as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Vancouver, British Columbia
January 30, 1984.

Notes to the Financial Statements

December 31, 1983

1 Accounting Policies
The information on page 6 presents a summary of the principal accounting policies and is an integral part of these financial statements.

2 Change in Accounting Policy
In 1982 the Corporation followed the equity method of accounting for its investment in the Bullmoose joint venture metallurgical coal project. In 1983 the Corporation adopted retroactively the proportionate consolidation method of accounting for that investment. As a result of this change the investment in the Bullmoose Project of $34,805,000 as at December 31, 1982 has been reclassified to construction in progress in the comparative figures shown on the balance sheet. As the Bullmoose Project was under construction during 1982 and 1983 the change in accounting policy had no effect on the reported net earnings of the Corporation for either year.

3 Plant and Equipment

	1983	1982
	(in thousands)	
Plant and equipment, at cost	**$298,700**	$295,138
Less accumulated depreciation	**98,280**	80,266
Total	**$200,420**	$214,872

4 Mining Properties and Preproduction Expenditures

	1983	1982
	(in thousands)	
Mining properties, at cost	**$ 1,233**	$ 1,233
Less accumulated amortization	**495**	447
	738	786
Preproduction expenditures, at cost	**57,852**	57,852
Less accumulated amortization	**20,984**	18,514
	36,868	39,338
Total	**$ 37,606**	$ 40,124

5 Bullmoose Project Bank Loans

	1983	1982
	(in thousands)	
Recourse loans	**$ 41,302**	$ 34,800
Limited recourse loans	**65,000**	–
	$106,302	$ 34,800

Financing for the Bullmoose Project includes recourse and limited recourse loans. The recourse credit facility is for $79.3 million of which loans of $33.1 million are repayable in semi-annual instalments from July 15, 1985 through July 15, 1992 while the balance remains available until July 15, 1992 on a revolving basis subject to annual reductions. The limited recourse credit facility is for $90.0 million and the loans outstanding at the end of the drawdown period will be repayable in semi-annual instalments from July 30, 1985 through January 30, 1995. Based on the loans outstanding at December 31, 1983 minimum loan repayments over the next five years are $2,613,000 in 1985, $6,552,000 in 1986, $9,522,500 in 1987 and $8,846,500 in 1988.

The limited recourse loans are secured by a mortgage and charge on the Corporation's 39% undivided interest in the Bullmoose Project's assets. Prior to March 31, 1984 the recourse loans are to be secured by a mortgage and charge on the aforesaid undivided interest subordinated to the security given in connection with the limited recourse loans.

Both credit facilities are available by way of Canadian and/or U.S. dollar loans and bankers' acceptances at floating interest rates; at December 31, 1983 the loans and acceptances outstanding carried average interest rates of 10.9% on the recourse loans and 11.6% on the limited recourse loans.

6 Capital Stock
At December 31, 1983, 30,000 common shares were reserved for issue under a Stock Option Plan for which no exercisable options are outstanding.

7 Commitments and Contingent Liabilities
(a) On December 9, 1983, the Corporation received federal income tax Notices of Reassessment in respect of 1979 and 1980 which relate primarily to timing differences and which would not affect the Corporation's reported net income. No provision has been made for the assessed interest, on these timing differences, of $2.8 million at December 31, 1983. Based on advice from counsel, the Corporation will file Notices of Objection and expects the objections to be upheld. Therefore, an increase in the current year's income tax provision to cover the assessed interest is not considered necessary.

(b) Estimated total cost to complete the Corporation's investment in the Bullmoose Project at December 31, 1983 was approximately $9.0 million of which $3.9 million was committed.

As provided for in certain agreements and contracts, the Corporation has assumed minimum annual operating and payment commitments for port, rail and hydro facilities to the extent of its 39% interest in the Bullmoose Project.

Loan guarantees, secured by a $13 million debenture, have been provided to the District of Tumbler Ridge by the co-owners of the Bullmoose Project. The debenture is secured by a floating charge on all the assets of the Project and the charge is subordinated to any other liens issued on the assets of the Project. The Corporation's obligations under the debenture are limited to its 39% interest in the Bullmoose Project.

(c) The Corporation has a contingent liability to buy back houses and mobile home lots at the Logan Lake townsite for $2,280,000 as at December 31, 1983; the cost of the buyback declines by 5% per annum.

(d) The Corporation has guaranteed mortgages, amounting to $4,691,000 at December 31, 1983, on certain housing in Logan Lake.

8 Related Party Transactions

(a) Rio Algom Limited has agreed to supervise and manage the business of the Corporation until December 1, 1984. The 1983 management fee was at the minimum agreed level of $250,000; the fee for future years is to be escalated from a base of $1,000,000 in 1980 in accordance with a formula based on published government indices and is subject to a minimum of $250,000 and a maximum based on a percentage of the earnings before taxes.

(b) A shareholder, Teck Corporation, 51% owner and manager of the Bullmoose Project, received from the Corporation a management fee of $455,000 in 1983.

9 Income Taxes

(a) The Corporation has accumulated capital losses for tax purposes of $4.2 million which will be available to apply against future taxable capital gains. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these losses.

(b) In addition, $11.0 million of investment tax credit carry forwards are available to reduce future years' taxes otherwise payable and, if unused, will expire between the years 1985 and 1990. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these investment tax credits.

10 Segment Information

The Corporation's operations may be segregated into two segments as follows:

Copper-molybdenum —
Open pit mining and milling of copper and molybdenum ore and sale of concentrates.

Coal —
39% interest in the Bullmoose joint venture metallurgical coal project which was not yet in production at December 31, 1983; as a result, as indicated in note 2, there was no impact on the Corporation's statement of earnings.

For 1983 and 1982 the Corporation's revenue, operating profit and depreciation, amortization and depletion expense all related to the copper-molybdenum segment.

Identifiable assets and net capital expenditures of each segment including capitalized interest are as follows:

	1983	1982
	(in thousands)	
Identifiable assets:		
Copper-molybdenum	**$300,121**	$316,306
Coal	**119,835**	34,805
Total	**$419,956**	$351,111
Net capital expenditures:		
Copper-molybdenum	**$ 3,563**	$ 6,774
Coal	**69,097**	34,805
Total	**$ 72,660**	$ 41,579

Virtually the entire net revenue from mine production relates to export sales.

11 Investment in Bullmoose Project

The following amounts are included in the financial statements and represent the Corporation's proportionate investment in the assets and liabilities of the Bullmoose Project:

	1983	1982
	(in thousands)	
Assets		
Current	**$ 15,933**	—
Construction in progress	**103,902**	$ 34,805
	$119,835	$ 34,805
Liabilities and Equity		
Current liabilities	**$ 6,820**	—
Housing loans	**1,898**	—
Equity	**111,117**	$ 34,805
	$119,835	$ 34,805

Five Year Review

	1983	1982	1981(i)	1980	1979
Earnings: (thousands of dollars)					
Net revenue from mine production	**$148,506**	$126,893	$150,929	$173,738	$190,572
Investment and other income	**1,223**	—	3,358	12,355	3,607
	149,729	126,893	154,287	186,093	194,179
Operating costs	**111,391**	111,386	87,274	58,770	49,564
Administrative and general	**10,590**	11,575	9,946	8,465	7,435
Amortization and depreciation	**20,533**	20,816	15,370	9,865	9,544
Exploration	**435**	714	590	—	—
	142,949	144,491	113,180	77,100	66,543
Operating profit (loss)	**6,780**	(17,598)	41,107	108,993	127,636
Interest expense	**502**	2,087	259	110	1,739
	6,278	(19,685)	40,848	108,883	125,897
Income and mineral resource taxes	**3,595**	(8,545)	17,600	43,770	68,328
Net earnings (loss)	**$ 2,683**	$(11,140)	$ 23,248	$ 65,113	$ 57,569
Production Data: (thousands except per operating day data)					
Tons of ore milled	**31,710**	30,692	22,861	17,678	17,776
Per operating day	**86,877**	84,086	62,634	48,302	48,701
Copper in concentrate (pounds)	**181,682**	194,582	164,730	126,346	134,194
Molybdenum in concentrate (pounds)	**7,506**	6,347	4,790	4,813	4,436
Silver (ounces)	**710**	739	590	507	487
Financial Data: (thousands except per share data)					
Per share of common stock					
Net earnings (loss)	**$ 0.32**	$ (1.35)	$ 2.81	$ 7.87	$ 6.96
Dividends	**$ —**	$ —	$ 2.00	$ 4.00	$ 2.00
Equity	**$ 20.96**	$ 20.63	$ 21.98	$ 21.17	$ 17.29
Long term debt and housing loans	**$109,150**	$ 35,761	$ 1,014	$ 1,050	$ 1,071
Shareholders' equity	**$173,283**	$170,600	$181,740	$175,030	$142,992
Common shares outstanding	**8,269**	8,269	8,269	8,269	8,269
Capital expenditures	**$ 72,660**	$ 41,579	$ 57,119	$ 95,833	$ 8,657

Note:
(i) The expanded Lornex facilities commenced operation in August, 1981.

Lornex Mining Corporation Ltd.

Directors

George R. Albino,
Mississauga, Ontario

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Toronto, Ontario

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Lorne H. Hunter,
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Honorary Director
Egil H. Lorntzsen,
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Officers

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Chairman, President and Chief Executive Officer

Lorne H. Hunter,
Vice-President

John Van Netten,
Treasurer

C. William M. Burge,
Secretary

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James McManus,
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H. James Anderson,
Administration Manager and Controller

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Shares Listed (Symbol LMN)

Vancouver Stock Exchange

Lornex

Printed in Canada